ARIEL
Ventures, LLC

October 2, 2009

Mr. Matthew Josephs
NMTC Program Manager
CDFI Fund
US Department of Treasury
601 13th St. NW, Suite 200 South
Washington, D.C. 20005

Dear Matt:

Ariel Ventures, LLC thanks you in advance for the opportunity to provide input for CDFI Fund's Request for Public Comment on the New Markets Tax Credit (NMTC) application. Ariel Ventures, a minority and 100% women-owned firm, works with many CDEs, Investors, QALICBs nationwide on NMTC compliance and reporting services and software; structuring and financial modeling for NMTC and combination with multiple tax credits; QALICB qualification; securing NMTC allocations for projects; investor syndication; public-private finance; loan servicing; accounting; assistance to a few CDEs annually on the NMTC application; and other NMTC services, as needed by CDEs, except for audit and tax returns. Over the last 6 years we have worked on over $1 billion of NMTC projects, in the areas of NMTC structuring, financial modeling and compliance. In 2003 we developed the first state-of-the-art comprehensive NMTC compliance, reporting, and CDE management software application, which has been approved for integration with CDFI's CIIS since 2004, and used by many CDEs nationally for automating various aspects of compliance, reporting and operations to improve efficiency while reducing costs.

<u>The CDFI Fund has requested input for the following questions:</u>

1. Is the information that is currently collected by the Application necessary and appropriate for the Fund to consider for the purpose of making award decisions? Please consider each question and table in the Application. Are there questions or tables that are redundant and/or unnecessary? Should additional questions or tables be added to ensure collection of more relevant information?

We think that the current information in the application is necessary and appropriate for the Fund to consider when making award decisions; however, there is some duplication of information and/or data.

For example, in Question 30 subpart (ii), the information in how the data will be collected going forward is usually the same for different impacts, so it would be more efficient to provide this information one time applicable to all, instead of repeating it for each impact.

Another example, in Tables D1-D4, the majority of management team members participate in more than one responsibility area, so are listed in the tables multiple times (sometimes in all 4 tables). It would be more efficient to have 1 table that combines the different roles and backgrounds, and we have provided as Exhibit A, a possible format of a table that combines all four areas into a single table.

Question 24 is also somewhat redundant with information that is provided in other business strategy and community impact areas.

For purposes of assessing the past history of raising capital and financing projects for a new CDE, as an alternate to the experience of the controlling entity, or the CDE, the CDFI Fund should consider including the NMTC experience of the CDE's owners, Governing Board Members, and Management Team in the appropriate tables and questions eg: Table A and C and the corresponding questions on past history and community impact. An NMTC experienced Management Team and Governing Board could very effectively and efficiently deploy and manage an NMTC allocation, even if the CDE or the controlling entity have a limited history for deploying capital or raising capital. Additionally since the questions in the Management Capacity have been shortened to 2,000 characters, it is hard to effectively describe the experience only within the Management Capacity area and the D Tables.

2. Are the thresholds contained in Question 17 of the Application appropriate, given current economic conditions? If not, what should the criteria include? Should the Fund provide a range of flexible product commitments based on a discount of interest rates below market as defined by basis point reductions (or other product flexibilities) or continue to present commitment options in percentage terms?

Since the NMTC benefit to the investor is fixed at approximately 5.57% on average per year, basis reduction may be a better measure than a % reduction, especially in an environment where interest rates are changing a lot. Also the measure of better rates and terms would vary depending on Leverage or Non-leverage structure. Measuring flexible products in a leverage structure, is more complex than in a non-leverage structure as explained below.

In a non-leverage structure the maximum subsidy an investor receives annually is about 5.57% on average, totaling 39% credit over 7 years on the QEI amounts, so they may pass on for example a 3.5% interest rate reduction annually on the total QEI amount, which over 7 years results in about 25% subsidy to be shared between the CDE and the QALICB. So if the interest rates are high, eg: at 9%, the 3.5% interest reduction subsidy the CDE could pass thru would be about 35% below market, however if the interest rates are low, eg: at 5%, the same 3.5% interest rate subsidy would be 70% below market, so an interest reduction of 3.5 basis points would be a more specific measure than a % reduction measure.

In a leverage structure the NMTC investor receives the 39% over 7 years and provides an upfront subsidy to the CDE eg: 28%, depending on the investors IRR requirements. The CDE generally holds a certain percentage eg: 5%, resulting in about 23% subsidy to provide as a subordinate loan or equity to the project, and for any loan reserves or success fee back to the CDE. In a situation, where all the NMTC subsidy is converted to a subordinate B loan, there would be no interest reduction on Loan A, which generally equals the leverage loan amount and would be approximately 72% of the QEI amount. So arithmetically even if a minimum 1% interest rate was charged on the subordinate B loan, which may be about 23% of the QEI, it would be hard to provide a 2.75 basis point reduction on a blended rate for the overall Loan A and B QLICI amounts unless market rates were in double digits, as all the NMTC subsidy is included in the subordinate loan amount. So it may provide more accurate analysis if the CDFI Fund had a separate measurement standards for a non-leverage and leverage structure. We can provide more detailed calculations to explain this further if needed.

3. A CDE is entitled to earn five "priority points" for committing to invest substantially all of its QEI proceeds in businesses in which persons unrelated to the CDE hold the majority equity interest…Is it appropriate that this test is applied after the investment is made, or should the CDFI consider applying this test before the investment is made? If the test is to be applied before the investment is made, then how should the Fund treat circumstances whereby the receipt of the QEI and the investment in the business is essentially a simultaneous transaction, particularly when the CDE may not have any owners identified prior to the QEI closing?

Both situations would hurt one party or another. To permit for the combination of Historic tax credit, Renewable energy credits and other investment tax credits with the NMTC structure, it would be good to have the unrelated entities rule apply before the investment is made, instead of after the investment is made. However, this change would hurt the ability of mission driven Allocatee CDEs, to invest in their own community development projects, as presently they can do as they are are not related to the QALICB after the investment is made, and can undertake their community projects, even though they are related before the investment is made. The change may hurt their ability to expand their community development efforts, especially given that their experience in community impact helps them score well to qualify for an allocation. If the legislative intent was to prevent investors from taking tax credits on their own projects, we believe bonus points should be given for committing that the NMTC investors will not be related to QALICBs before the NMTC investment is made. However, the Allocatee could be related to the QALICB before and/or after the investment, which would allow mission driven CDEs to invest in their own projects.

4. The Application currently collects outcome information on the applicant's historic community impacts and projected economic development impacts in Table C1 and C2, respectively, and collects information on projected community development impacts in Question 30. Are there changes that should be made in the way projected economic development is currently measured? Are there other outcomes/impacts for which the Fund should be collecting information to ensure effective use of the NMTC? Should the Fund have greater focus on community development outcomes/impacts? Alternately, should the Fund focus exclusively on economic development outcomes/impacts?

We think that the CDFI Fund should look at both the economic and community historical and projected impacts in order to assess the past impacts of the Applicant/Controlling Entity, and the projected impacts through NMTC-supported financing. Question 30 is a good starting point of impacts, and allows the Applicant to write in additional impacts of their projects that are not already specified. We believe that subsections (i) and (ii) should be eliminated; the methodology and assumptions part of section (ii) should be provided in the main answer for each impact, while how the data will be collected going forward should be a separate sub-question that is applicable to all impacts. Tables C1 and C2 should allow the Applicant to also "write-in" and quantify additional impacts that are not already specified in the tables.

5. Do Question 56 and Table F1 of the Application capture all sources of compensation and profits that the applicant and its affiliates receive in connection with NMTC transactions? How can collection of this information be improved? How should the Fund use this Information? For example, should the Fund make the applicant's stated fees a condition of the Allocation Agreement, and should the Fund set limits on fees in the Allocation Agreement?

We believe that Question 56 and Table F1 are a great improvement over previous applications, and help to quantify the compensation and profits that are being charged to NMTC transactions. However, the reporting may not cover fees that are built in to the interest rates and held at the Sub CDE, or fees that are paid directly from the QALICB to a related entity of the CDE.

6. In any given Application round, the Fund requires applicants that have received awards in previous rounds to demonstrate that they have been able to raise minimum threshold amounts of QEIs from their prior awards). Are these current minimum threshold requirements sufficient? Should the Fund consider using different measurements, such as the amount of QEIs that have been deployed as investments in low-income communities?

We believe that the current method of QEI thresholds does not provide an entirely accurate picture of the financing activity of the CDE. In the past, there had been CDEs that were obtaining QEIs to meet their thresholds, without a commitment to a specific QALICB project, expecting that a project could be identified and closed within the 12 month window (this is not as common in the current financial environment, since it is not as easy to find qualified projects and leveraged lenders). A more accurate picture of a CDE's financing activity could be provided by looking at the originated QALICB transactions, QLICIs that are committed, and either funded to the project or under legal contracts to be funded.

7. The Fund generally caps award amounts to any one organization in a given round. In the 2009 Application round, this cap was set at $125 million. Is this an appropriate amount? Should the Fund consider raising the cap significantly (e.g. to $250 million), and prohibit a CDE that receives such a large allocation award from applying again for an established period of time?

We think that the annual award cap should be kept at $125 million, so that a larger number of CDEs can receive allocations. We feel if the measure for reapplying is changed to 50% QLICIs deployed by application date, it will automatically reduce the number of CDEs that would be able to apply in the following year, except maybe for large banks who would have a large pipeline of projects ready to close in a few months of receiving the allocation. However, it is possible that to meet deadlines to reapply, some CDEs may rush to finance QALICBs that are ready to close, versus a project with higher community impact that may be more difficult to close.

8. In April 2009, the Government Accountability Office released a report titled: "New Markets Tax Credit: Minority Entities Are Less Successful in Obtaining Awards than Non-Minority Entities." Are there actions that the Fund should take in order to increase the number of minority CDE applicants and allocatees?

We could have a mandatory "Minority Status" data point in the application, with minority status as defined by federal guidelines of >50% ownership by minorities. In the case of non-profit CDEs to qualify as a minority CDE the main Executive director / President or equivalent should be a minority and the governing board should have greater than 50% minority board members. The same provision could also be applied to women-owned CDEs. To encourage minority and women-owned CDE participation the CDFI Fund can provide priority points. We feel that the minority qualification based solely on a single minority Executive director should be removed, as it can lead to abuse of this provision for priority points.

9. Are there changes that can be made the application process or elsewhere, that will increase the amount of QLICIs that support activities that have not traditionally received large scale financing *from NMTC investment proceeds (e.g. loans and investments for small business operations; loans to and investments in other CDEs, including CDFIs; purchase of loans from other CDEs; etc.)?*

We believe that in the current environment where unemployment is high, businesses and manufacturing facilities are closing down, and where there has been excessive real estate development, the CDFI Fund should give priority points to financing businesses and manufacturing projects that increase permanent jobs and wages vs creating temporary construction jobs, so NMTC can be used for creating long term economic and community impact for the nation as a whole.

Given the high unemployment, maybe consider a reporting mechanism for real estate projects and business relocations in LICs, to ensure that there is a net benefit of jobs to the region, as sometimes a new development in an LIC area, may just move tenants or businesses from nearby developments, resulting in no new net jobs for the region. This could lead to shutting down of older developments, thereby creating new blighted areas.

10. Currently, the Fund uses economic distress factors from the most recent decennial census to qualify eligible census tracts and to verify, where applicable, that awardees are serving "severely" distressed communities. Are there other public sources of data on economic indicators that are updated more frequently and readily available that the Fund should accept?

We believe that other public sources of data on economic indicators that are updated more frequently and readily available should also be accepted for determining "severely" distressed communities.

We thank the CDFI Fund again for the opportunity to provide comments and input regarding the NMTC application. If you have any questions on the information provided, or require any clarification, please feel free to contact me at rr@arielventures.com or (216) 344-9441.

Sincerely,

Radhika Reddy

Radhika Reddy
Partner

Note: Contact Information for the partners of Ariel Ventures, LLC:

Radhika Reddy, MBA, MA-Tax Partner **Ariel Ventures, LLC** Direct Phone: 216-344-9441 Direct Fax: 216-373-7356 Cell: 216-577-2420 Email: rr@arielventures.com	**Lynn Selzer**, CPA, Attorney, MBA Partner **Ariel Ventures, LLC** Direct Phone: 216-344-9442 Direct Fax: 216-373-7357 Cell: 216-559-3411 Email: ls@arielventures.com	**Irene Zawadiwsky**, MBA Partner **Ariel Ventures, LLC** Direct Phone: 216-344-9447 Direct Fax: 216-373-7358 Cell: 216-533-9341 Email: iz@arielventures.com

EXHIBIT A

Suggested single combined table for existing D1 to D4 tables:

Experience Areas: Deploying Capital, Raising Capital, Risk Management, Compliance

<table>
<tr><td>Name:</td><td></td><td>Total Assets Under Management in Past Five Years ($)</td><td></td></tr>
<tr><td>Firm:</td><td></td><td>Total Amount of Capital Raised in Past Five Years ($)</td><td></td></tr>
<tr><td>Title at Firm:</td><td></td><td rowspan="2">Relevant Experience Raising Capital (check all that apply)</td><td rowspan="2">__ Profit motivated investors.
__ Non-profit or governmental entities.
__ Using tax credits as an incentive
__ Not Applicable</td></tr>
<tr><td>Years with (or years providing services to) the Applicant or Controlling Entity</td><td></td></tr>
<tr><td>Role with Applicant</td><td></td><td rowspan="2">Relative Experience Monitoring Compliance:</td><td rowspan="2">__ NMTC Program
__ Other tax credit programs
__ Other governmental programs
__ Foundation
__ Other (specify):
__ Not applicable</td></tr>
<tr><td>Hours per Week with Applicant</td><td></td></tr>
<tr><td colspan="4">Description of Responsibilities with Applicant</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">Description of Individual’s Qualifications in Deploying Capital</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">Description of Individual’s Qualifications in Raising Capital</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">Description of Individual’s Qualifications in Asset and Risk Management</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">Description of Individual’s Qualifications in Compliance</td></tr>
<tr><td colspan="4"></td></tr>
</table>